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U.S. Agricultural Outlook

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U.S. AGRICULTURAL OUTLOOK

The outlook for U.S. agriculture is guardedly optimistic. The optimism stems primarily from the current year-end situation - producers in total have produced record quantities of many commodities and are selling these commodities at respectable prices. However, there are several uncertainties which cloud the picture and could act to reduce much of the above optimism. Some of the major areas of concern, along with the current agricultural situation, will be presented in this newsletter.

Current Situation and 1976 Outlook

Cash receipts, expenses and income figures for U.S. agriculture as reported by the USDA are presented in Table 1. Although 1975 cash receipts were up over 1974, production expenses were up by a greater amount, resulting in a lower realized net income in 1975. Even then, \$25.0 billion is the third highest on record. It must be remembered however, that this figure has not been adjusted for inflation. If that were done, the real value would be lower.

Income estimates for the first half of 1976 are optimistic. Farm income during that period will come mainly from crops already harvested or livestock already well along in the production process. Supplies in both areas are at high levels. Barring a major breakdown in demand, especially foreign demand, prices for most commodities should hold up relatively well through the first half of 1976. This combination of large supplies and favorable prices provides a good agricultural income outlook for the first half of 1976.

Income estimates for the remainder of 1976 are more difficult to make. Supplies of most commodities will not be known for several months, although indications already point to large production potentials for both crops and livestock. The demand picture is also unknown, especially foreign demand for such grains as wheat, soybeans and corn and for livestock products, especially beef. When both supply and demand are unknown, price productions are akin to guessing.

Major Areas of Concern

Production Expenses - Agricultural production expenses are expected to increase in 1976, but at a slower rate than in 1974 and 1975. Increases are expected in labor, machinery and farm supply (energy) costs. Decreases are expected in the cost of seed and fertilizer. The latter item is particularly noteworthy. An adequate supply of fertilizer at lower prices will likely result in an increased use of fertilizer. With favorable weather, crop output would again be at record levels in 1976.

Foreign Markets - Foreign markets will continue to exert increasing influences on U.S. agriculture. World production of many grains was at a record level in 1975. The reduced grain output in Europe and the USSR was a major factor in offsetting record production elsewhere, thus allowing U.S. prices to be maintained at current levels. An increase in foreign production could reduce the demand for U.S. products. This could be in terms of reduced outside needs of the country in which output increased, or indirectly when demand is shifted from

the U.S. to other surplus-producing countries. There is no guarantee that countries needing agricultural commodities will always buy from us. If they don't, there is certainly cause for concern.

In addition to competition on a product-for-product basis, there is increasing competition on a substitute basis. For example, foreign palm oil is competing in some markets (both at home and abroad) formerly supplied by our soybean oil, cottonseed oil and tallow.

Livestock and Grain Production - Grain production is highly dependent upon weather. However, given the current planting intentions, favorable weather conditions for fall fieldwork and anticipated fertilizer usage, a large production of most grains is likely.

Production and prices in the livestock sector are highly dependent on the grain sector. Current estimates are for increased production of grain-fed cattle. Total beef production will not be up as much as grain-fed production because non-fed production will be down. Estimates of pork production are not certain. Hog production can change rapidly as producers respond to grain supplies, prices and profit expectations.

The price picture for 1976 appears to be one of greater stability (less

month-to-month fluctuation) than in the past year or two, but probably at lower levels. If current production intentions are realized, fed cattle prices may average below \$45 for the year. Hog prices are likely to be below 1975 price levels.

Summary - Outlook statements for agriculture are optimistic. However, uncertainties do exist. Many factors outside the control of the U.S. and U.S. agriculture affect the industry. Also, outlook for the industry says very little about localized conditions or producers. Local outlook depends on weather, individual producer's situations, management abilities and sometimes luck. These could yield results quite different from the industry.

Table 1 - Cash Receipts, Expenses and Income, 1974-75

	1974	Est. 1975
	(Billion Dollars)	
Cash Receipts:		
Livestock	41.4	43.5
Crops	52.1	50.6
Total	93.5	94.1
Non-money Income	7.1	7.4
Government Payments	0.5	0.7
Realized Gross Income	101.1	102.2
Production Expenses	73.4	77.2
Realized Net Income	27.7	25.0
Inventory Change	-1.6	
Total Net Income	26.1	

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